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Editorial

Few subjects attract more contradictory social conventions than money.

We're often told that it shouldn't matter and that the topic is incredibly gauche to discuss openly.

Yet we observe financial media is often littered with rich lists, millionaire investor profiles and tales of eye-watering fortunes that have been amassed or squandered. Many devour these stories with a compulsive desire to understand how one person arrives somewhere another does not.

Admittedly, I am no stranger to this enthusiasm. But I'm reluctant to dismiss it as merely a form of financial voyeurism. I suspect what many find most interesting has less to do with the numbers and more with the path that produced it.

The natural assumption is that if someone has accumulated substantial wealth, there must be something to learn from them. Perhaps they are simply better investors. I wonder whether that link is as intuitive as it first appears.

Surprisingly, there are relatively few studies that directly examine the investment outcomes of households with substantial assets. An interesting one that I came across was *Asset Allocation and Returns in the Portfolios of the Wealthy (2023)* by Cynthia Balloch and Julian Richers.

Through analysing 180,000 portfolios from 2016 - 2022, the authors found a positive relationship between wealth and investment outcomes, where performance tended to improve at the higher end of the distribution. Wealthier households achieved both higher raw and risk-adjusted returns.

On the surface, the finding appears to confirm the intuition that the wealthy are simply superior investors. However, that may be an overly simplistic conclusion. The same research paper also uncovered an interesting finding about the changes in portfolio composition as wealth increased.

Asset allocation differences

Balloch and Richers found that wealthier households allocated a greater proportion of their capital to alternative assets like private equity, venture capital and hedge funds. While listed assets remained a key component of portfolios, they increasingly gained exposure to opportunities that are often unavailable to the average retail investor.

This complicates the idea that wealth leaves behind an easily replicable blueprint.

If stronger returns stem partly from opportunities that are inaccessible to most investors, then studying the wealthy becomes a more nuanced exercise. We may be observing not only better investment decisions, but a different set of opportunities altogether.

Table 3: Portfolio allocations by asset type and wealth (%, 2019)

Wealth group	Cash & cash eq.	Fixed income	Public equities	Mixed	Alts	Private companies	Real estate	Other
<3m	8.8	19.6	51.3	4.4	8.9	0.4	2.0	4.6
3m-10m	8.0	20.8	45.8	2.2	10.9	0.9	3.6	7.8
10m-30m	7.6	19.2	38.1	1.9	14.9	2.1	6.2	10.0
30m-100m	8.8	16.0	34.4	1.6	18.0	3.4	7.4	10.5
>100m	7.4	13.0	30.3	1.5	23	6.5	8.1	10.2

Notes: Data as of the end of 2019. Portfolios with fewer than three positions and observed for less than two years are excluded, as are those with as are those with positions in a single asset (e.g. equities, alternatives) valued at greater than one billion, and those with less than 100,000 of total wealth.

Naturally, higher allocations to private market assets can make return comparisons difficult and shift risk-adjusted metrics.

The authors' analysis tried to account for this through calculating counterfactual returns, in which all private equity and venture capital returns were replaced with the value-weighted market return in each month. In plain terms, they tested whether the result still held when private market returns were substituted with public market returns.

They still found that wealthier households continued to outperform even after adjusting for differences in private market returns. I believe that suggests something else may be at work.

The causation argument

When we observe a wealthy investor generating strong returns, it's natural to assume the wealth is evidence of skill. But we run the risk of confusing correlation with causation. Some of the relationship might actually run in the opposite direction.

An individual with a $5 million portfolio experiences volatility differently from somebody trying to build financial security with a five-figure account balance. An affluent investor can likely tolerate extended periods of underperformance, spread costs across a larger asset base and pay for advice when needed.

Investing is often presented as an intellectual exercise but most of us know it is also an emotional one. Wealth doesn't just change a portfolio but also the conditions under which decisions are made. This creates a structural advantage that has little to do with investment selection.

It is entirely possible that some become wealthy because they're unusually disciplined, patient or simply have superior investing skill. It is also possible that once they've accumulated wealth, those same qualities become easier to maintain.

Concluding thoughts

This is a classic chicken-and-egg dilemma that I am reluctant to draw a definite conclusion upon.

Do wealthy investors outperform because wealth makes aspects of investing easier? Or does investing become easier because the habits required to accumulate wealth have already been learnt? I suppose both explanations could be true.

I am curious where readers stand.

Over your investing lifetime, what do you believe has contributed most to successful outcomes? And when we look at 'successful' investors, are we observing the causes of wealth or merely its consequences?

Simonelle Mody

Also in this week's edition...

Kaye Fallick interviews Bill Kelty, one of the key figures behind Australia's super system, to debate whether we may be asking too much of a retirement savings system.

Marc Jocum explains why rising yields have put bonds back into business, however, the new challenge for investors is deciding whether they're still being adequately rewarded for risk.

Retirees, advisers and super funds all talk about the bucket strategy as if it refers to one thing. **Craig Sankey** doesn't agree, and argues that the differences can be significant.

Investment temptations are hard to resist. The team from **Schroders** outlines what 'The Odyssey' can teach us about valuation discipline.

Market concentration has been a growing source of concern in recent years. **Jan-Carl Plagge** explores whether that means more risk for investors.

Health goals, new friendships and lingering questions about identity. **Dr Joanne Earl** is back to share insights from her eight months in retirement.

Australia's economic problems are hardly a secret, but is the stock market as exposed as we think? **Dion Hershan** believes economic stagnation might be ok at this point.

Curated by Simonelle Mody and Leisa Bell

Bill Kelty: Super can't solve everyone's problems

Kaye Fallick

In the wake of recent debate about the purpose of superannuation, I spoke with former ACTU secretary Bill Kelty about why the system was created, whether it has achieved its aims, and why he believes super is being asked to solve problems it was never designed to address.

Kelty is often described as one of the two 'fathers' of Australia's super system, a title he is quick to rebuff. Some of his views may surprise readers.

Q. Who was the father of super?

There isn't one. The truth is, without Paul Keating there would be no legislated super.

But without union agreement, there would have been no industrial buy-in.

I would never claim to be the father – so many others went ahead; Tom McDonald, Simon Crean, Jim Maher, Pat Clancy, Gary Weaven and Charlie Fitzgibbon to name a few.

If you personalise these things, it oversimplifies the achievement.

Industrial super goes way back, starting with the coal miners (and Communist Party) in 1948. Then the seamen in the 1950s, Charlie Fitzgibbon and the Waterfront Federation also achieved it, as did Wally Curran and the Meatworkers (union) and Chris Northover and the Storemen and Packers (union).

Everyone has a different view of the purpose…

Q. What was the original purpose of super?

The purpose of super was to deliver a retirement benefit. Not to deal with women and equal pay or the fact that the aged care system is no good.

It can't solve everyone's problems, including investment capacity for housing.

It *can* provide capital. But if a government wants to make housing affordable, then that government has a social role to play.

When it comes to affordable housing, a government could be a developer at market rates.

It shouldn't be a hard problem to solve if the government creates an instrument rather than simply subsidising it. Look at the Singapore model, which actually made money.

Just don't try to use super as a band-aid.

Q. Governments have struggled to articulate an agreed intention for super over recent years. What was the overarching intention of super in 1992?

It was self-evident. Super, released from age 55 or 60, would facilitate early retirement. It would supplement Age Pension entitlements, then fewer retirees would depend upon a pension. With a relatively small proportion on the Age Pension, there could be an increase in the pension in real terms.

Put simply, it was always about retirement.

It was not a gift from employers or government. The employer was the means of organising super.

We gave workers a sense of ownership from the start. We asked them to give up their wage increase, to defer wages and put this money into the super compact. The biggest contribution was employees' wages – not government funding. It is still workers' money.

And if you get the economy to work, as part of the productivity increase there will be higher super from higher wages.

Contributions and low member engagement are hotly debated

Q. The current 12% super guarantee has been criticised as too high. Do you agree?

Initially 9% was adequate for retirement from age 55 to 75. It gave the flexibility of early retirement. After 75-80 or 80-85 there would be pressures on individuals to continue to fund a good retirement. Moving the percentage from 9-12% and above would provide the best retirement for the over 80s.

But older people voted in increasing numbers for the Liberal Party. It's ironic, as these were the people for whom the change (from 9-12 -15%) was designed. And Australia now has a problem with aged care.

Q. Do you have a view on the level of engagement of members of super funds?

The rate of engagement is not a measure of success. Support for super has grown and returns are better – in fact, it is outperforming the original ambition.

General disengagement is not surprising. The more trust there is in a system, the less engagement you tend to see. As a member you receive a return of 8-9% per annum. The system is doing what the policymakers said it would.

Most people trust super and get advice in super until they retire.

If you're 23 and have a small amount in super, why would you worry about it? Leave it there, it grows and then it gets to the point when the saver is very interested. The rate of concern grows with the amount invested and when the saver can access it. The best decision you can make in your earlier years is to buy a home.

Should super be freed up for first homebuyers?

Q. Which leads us to whether super should be withdrawn early to buy a house?

Super is workers' money negotiated as part of a system and tax-preferenced… Remember, when super was introduced in 1993, people could still buy a house.

How can using super be a solution to a different problem – namely low housing stock and declining wages?

Super access settings are generally correct. It is the people's money and I'm not sure that the electorate likes the idea of taking all that money out.

Q. Does super have a role to play in increasing productivity?

Super is an investment for retirement.

The AFL plays football, not cricket.

Funds are singularly directed to look after people's retirements so how they collect and then invest the contributions is up to their trustees.

Is super a policy failure?

Q. Senator Andrew Bragg has described super as: "One of the biggest public policy failures since federation. - It hasn't helped the budget, and it has not really helped many people get off the pension". How would you respond?

I would start from the facts. The Australian Age Pension is 2.7% of GDP – France is 9 or 10%. In the US, longevity is starting to go backwards. It's hard for Bragg to make that argument.

Super income is substantial – in real terms there are fewer people on the Age Pension – the pressure on the budget is coming from the NDIS and defence. Super actually frees up capacity for the NDIS. The truth is that super has significantly reduced pressure on the budget for the Age Pension. If the Age Pension was at 5-6% of GDP we would have no capacity for other social services.

It's time to make life simpler

Q. Do you agree that the decumulation phase of super needs fixing? If so, what could be improved?

The decumulation phase is not perfect. People trust the super system for accumulation. Most working people work their way through the system and live in retirement in accordance with both rules and expectation. They have savings of $300-400,000, then receive a pension and are able to take an overseas trip or help the kids.

But yes, there is complexity.

It could be simpler. It could be simplified by letting your super account show your combined position, linking systems to show savings, and then, from age 60, how you're tracking for a mix of super and Age Pension. Show people their options, such as option A, transfer to an account-based pension income stream, pay no tax, maybe take 10% of savings in a lump sum, with an Age Pension buffer of, say, $380 per week.

These sums are relatively simple, and most people manage them well.

As far as retirement income decision making goes, if you make life simple – for instance give people say four options – then most would prefer to tick a box and most are likely to choose a balanced fund.

Yes, some people get caught out, as in the case of Shield and First Guardian Master Funds. If someone offers really high rates of return and you knowingly take the risk, the results won't be good. But most working people are pretty smart.

Q. In regard to super, what do you believe to be your legacy?

It's not a single thing. We were a unique group of Australian trade unionists and political leaders who helped build the biggest safety nets – wages, super and Medicare. Keating and Hawke helped focus the country on economic growth. If not me, then someone else would have supported them.

After the interview, I put one of Professor Ron Bird's central criticisms of the superannuation system to Kelty and asked whether he wished to respond. Bird wrote that:

"...the system has never been built on rigorous economic analysis. The original 3% contribution was introduced as a wages workaround during high inflation, not as part of a coherent retirement income model."

Kelty's response:

The biggest test of all is life. We have proven the economic analysis in intensive Senate inquiries and been judged over a 30–40-year period. The ultimate test is not an economic policy in a university – it's the real test in the economic model called life. Ask whether super has:

- reduced the cost of capital,
- rectified balance of payment constraints,
- delivered a more flexible capacity to retire, and
- facilitated big lump sums at retirement?

The answer is 'Yes', just as we intended it. The only variation is a positive - that the returns have been in excess of what we originally thought.

Kaye Fallick is an independent retirement commentator and author, www.kayefallick.com. This article is general information and does not consider the circumstances of any person.

Rising yields have put bonds back in business

Marc Jocum

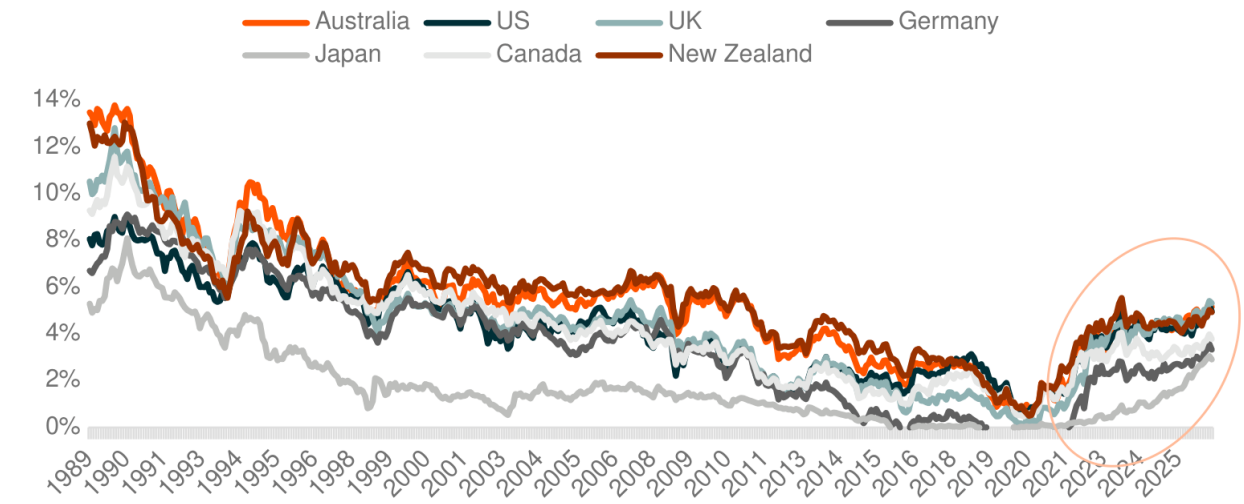
After three decades of falling interest rates, the pendulum has swung. Rising yields have unsettled markets, but for fixed income investors, the opportunity set is looking increasingly attractive. With government bond yields at multi-decade highs, equity risk premia turning negative and credit markets offering compelling income, investors may no longer need to take equity-like risks to generate meaningful portfolio returns. Fixed income is re-emerging as a core portfolio building block, offering investors another source of income and diversification alongside traditional dividend-paying equities and covered-call strategies.

A generational shift in income

For much of the past three decades, falling interest rates provided a powerful tailwind for bond prices, but progressively eroded the income available to investors. The COVID-19 pandemic accelerated this trend, as unprecedented monetary stimulus pushed yields towards historic lows. That era came to an abrupt end when the post-pandemic inflation shock, compounded by geopolitical tensions and surging energy prices, forced central banks to tighten monetary policy.

The consequences are now clear. Australia's 10-year government bond yield climbed to around 5.42% in October, its highest level since 2011, while the US 10-year Treasury yield reached 5.35%, a level last seen in 2002. These moves have been painful for existing bondholders and mortgage holders alike, with yields rising across the curve, as higher borrowing costs weigh on household budgets, corporate financing and equity valuations.

After Years of Declining, Global 10-Year Bond Yields Are Reversing Course



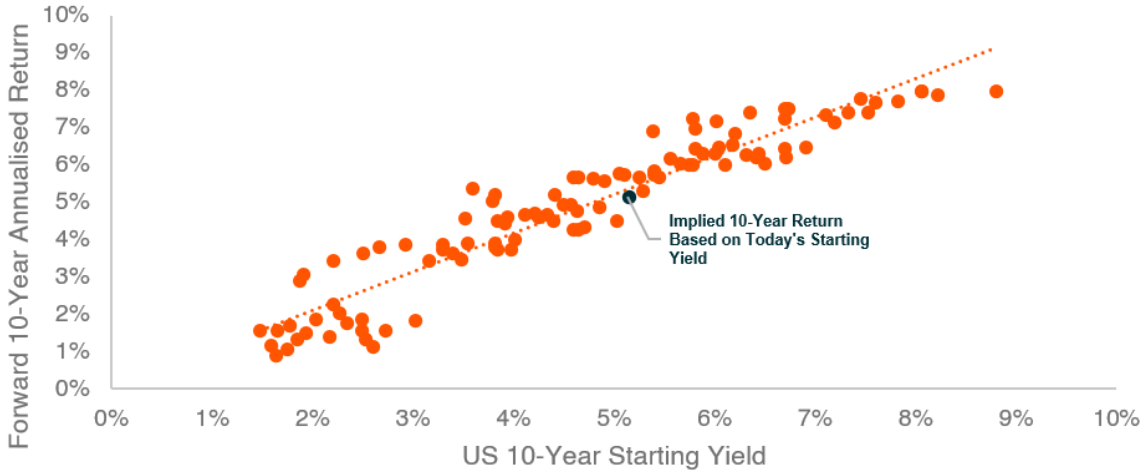
Source: Bloomberg data as of 23 October 2026. Past performance is not a reliable indicator of future performance.

Yet what is bad news for borrowers can be good news for investors lending capital. Higher yields mean investors entering the market today can lock in substantially higher income than what was available for much of the previous decade. Importantly, fixed income is more than a tactical opportunity presented by higher yields. It is a core portfolio building block that can provide recurring income, diversification and a potential source of capital stability when equity markets come under pressure.

Bond arithmetic is back in investors' favour

Unlike equities, where returns depend heavily on earnings growth, valuations and investor sentiment, bond returns have a more tangible starting point: yield. Starting yields are an important indicator of prospective long-term bond returns, although realised outcomes will depend on changes in interest rates, credit spreads and default risk.

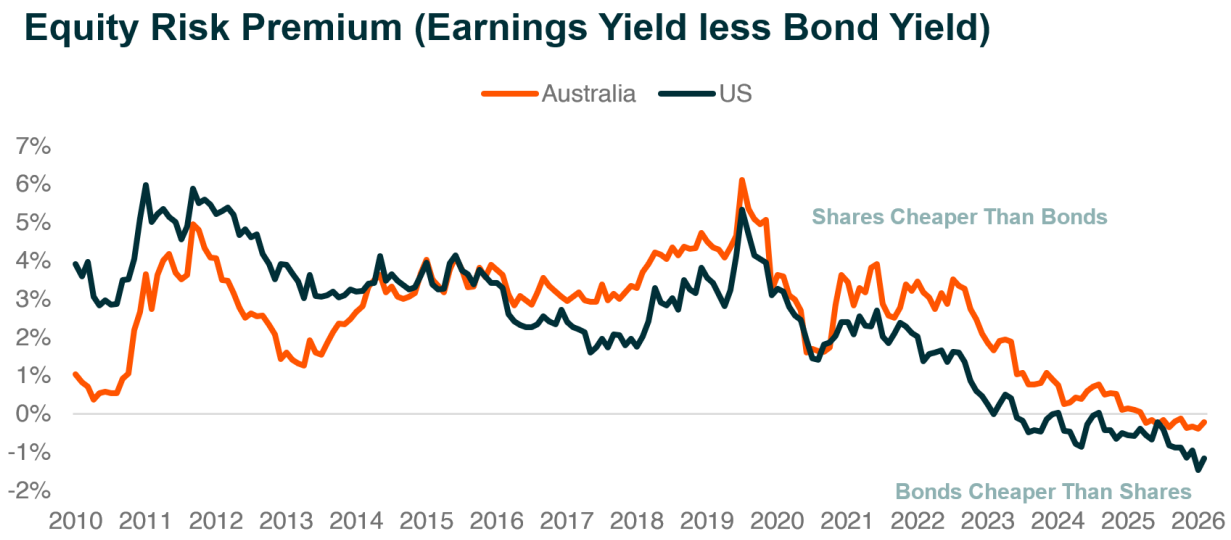
Bond Yields Are Historically Linked With Forward Returns



Source: Bloomberg data as of 23 October 2026 using quarterly observations over the past 30 years of the US 10-Year government bond yield. Past performance is not a reliable indicator of future performance.

This changes the risk-reward equation considerably. During the COVID era, investors buying government bonds at near-zero yields had little income to cushion further losses and limited scope for capital appreciation. Today, investors are being paid to wait, with the potential to benefit from both income and capital gains.

The equity risk premium, measured as the difference between an equity market's earnings yield and the 10-year government bond yield, has also turned negative in both Australia and the US. In other words, investors are receiving less earnings yield from equities than the yield available from bonds.



Source Bloomberg data as of 30 September 2026 using the earnings yield of S&P/ASX 200 Index and S&P 500 Index less the respective 10-year government bond yield.

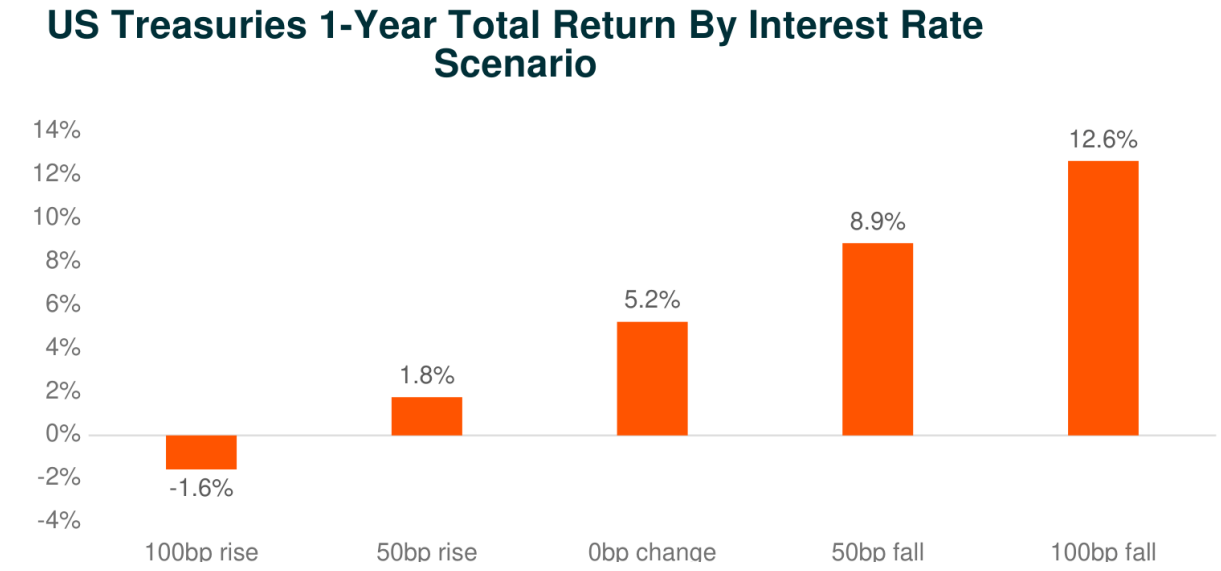
This is not a signal to abandon equities. Earnings yields are not the same as guaranteed returns, and equities offer potential earnings growth that bonds do not. However, it does challenge the assumption that investors must take on equity risk to achieve attractive returns.

The case for looking again at US Treasuries

US government bonds present a particularly interesting opportunity. Despite being the world's largest and most liquid government bond market, US Treasuries have been an unpopular allocation among Australian ETF investors, with concerns around US fiscal deficits, rising debt issuance and currency exposure contributing to investor caution and over $250 million in outflows from Australian-listed US Treasury ETFs over the past year[1].

These concerns are legitimate. Persistent inflation, elevated government borrowing and uncertainty around the path of monetary policy could keep yields higher for longer. However, much of this pessimism is already reflected in market pricing, and the recent sell-off has materially improved the income available to investors.

The opportunity is increasingly asymmetric. If inflation moderates and yields retreat from current levels, longer-duration bonds could deliver meaningful capital gains alongside their income. Conversely, if yields rise further, higher starting yields provide a stronger foundation for prospective returns if existing fixed-rate bonds experience capital declines. In other words, today's elevated yields provide a larger income cushion to absorb potential capital losses if yields rise further, while creating meaningful capital appreciation potential if yields eventually decline.



Source: Bloomberg data with theoretical total returns estimated using starting yields, relevant duration and convexity. Forecasts are not guaranteed, and undue reliance should not be placed on them. This information is based on views reasonably held by Global X as at 23 October 2026.

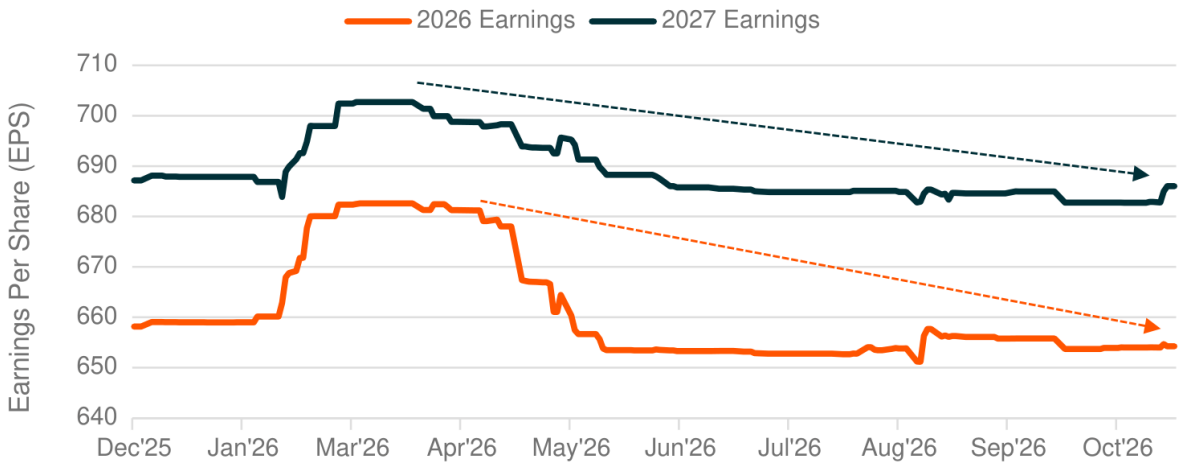
US Treasuries can also play a valuable role in portfolio construction, providing exposure to a different economic and monetary environment from Australian assets. There is also an interesting corporate dimension. Major US hyperscalers are investing heavily in artificial intelligence infrastructure, with debt markets increasingly providing a source of funding for this capital expenditure. Meanwhile, rising high-yield credit spreads are worth monitoring as questions emerge around the scale and potential returns of AI investment. While spreads remain relatively tight by historical standards, further widening could signal growing concerns around credit risk and create additional volatility for high-yield bond investors.

Australia: Lending to the banks instead of owning them

Closer to home, Australia's fixed income opportunity is shaped by a different set of challenges. Persistent inflation, weak productivity growth, a slowing property market and softer credit growth create a more complicated outlook for the domestic economy. Yet Australian bank credit remains an attractive source of income. The major banks are well-capitalised institutions, and their debt securities offer investors a way to participate in the income generated by the banking system without relying solely on equity dividends and share price appreciation.

Australian bank equities have had multiple 10% share price corrections so far this year, and remain expensive by international standards, while earnings expectations have also faced downward revisions this year. This creates an interesting alternative for investors - rather than owning the banks, investors can consider lending to them.

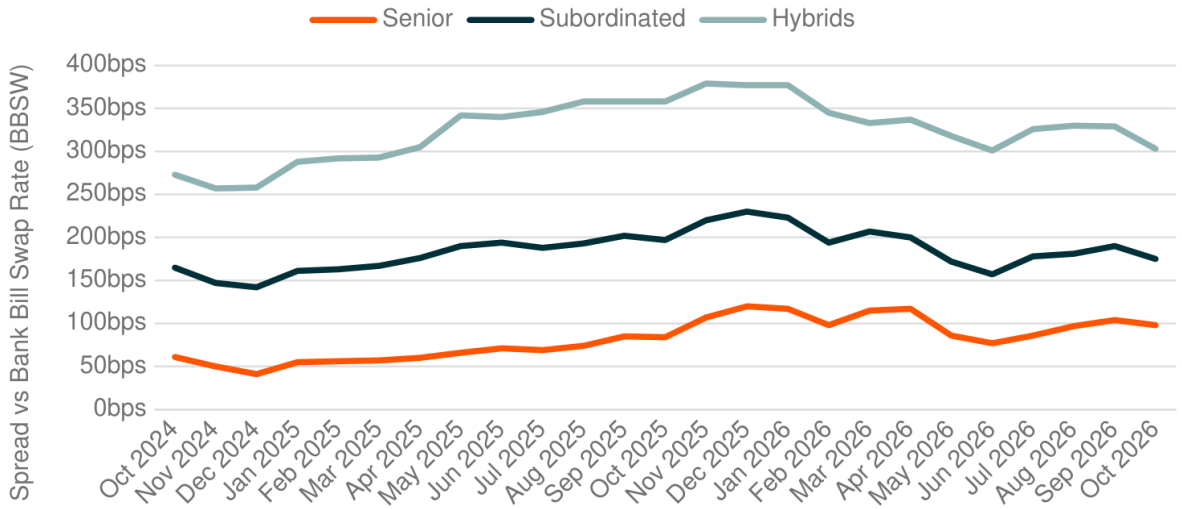
Earnings Revision for Australian Banks Are Falling



Source: Bloomberg as of 23 October 2026. Australian Banks represented by S&P/ASX 200 Banks Index. Past performance is not a reliable indicator of future performance.

Bank credit has offered yields above bank dividend yields, with senior debt, subordinated bonds and hybrids occupying different positions in the capital structure and carrying different levels of risk. While bank dividends are discretionary and equity prices can be volatile, bond investors receive contractual interest payments, subject to the issuer's ability to meet its obligations.

Australian Credit Spreads Still Look Reasonably Attractive Despite Falling Form Their Earlier Peak in January



Source: Bloomberg data as of 23 October 2026. Senior is Bloomberg AusBond Credit 0+ Yr Index, Subordinated is Solactive Australian Major Bank Subordinated FRN Index, Hybrids is Solactive Australian Banking Preferred Shares Index. Past performance is not a reliable indicator of future performance. You cannot invest directly in an index.

For investors seeking income without taking on the full volatility of equities, diversified bank credit can provide a compelling middle ground.

Getting paid to be patient

With bond yields now at levels not seen in years, fixed income offers investors a compelling opportunity to diversify their portfolios and capture attractive income. Australian bond ETFs have already recorded significant inflows last month, reflecting renewed interest in the asset class, while global government

bonds and corporate credit offer further opportunities across markets. Combined with high-dividend equities and covered-call strategies, bonds can provide another engine of portfolio income, with different return drivers across market cycles. For investors, today's elevated starting yields present an opportunity to broaden their income toolkit and give fixed income a more meaningful role in their portfolios. Shares outperform bonds over time, but not all the time.

Footnotes
1. Source: ASX, TMX as of 30 September 2026

Investors can access US credit markets by investing in ETFs such as the Global X USD Corporate Bond (Currency Hedged) ETF (USIG) and the Global X USD High Yield Bond (Currency Hedged) ETF (USHY).

For Australian bank credit, the Global X Australian Bank Credit ETF (BANK) combines exposure across different layers of bank credit, with its predominantly floating-rate exposure helping income respond to changes in short-term interest rates. Its relatively short duration also limits sensitivity to changes in government bond yields compared with longer-dated fixed-rate bonds.

Marc Jocum is a Senior ETF Strategist at Global X ETFs Australia, a sponsor of Firstlinks.

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Do you want a bucket with that?

Craig Sankey

Fifteen years ago, I attended a conference for financial advisers. The highlight of the day was a debate on the merits of the 'Bucket Strategy', with three advisers per debating team.

I can't recall all the points made but what I vividly remember is the passion shown by all participants. An unofficial debate then spilled over into the evening function that night. Yes, those financial adviser events are wild!

Since then, I've maintained an interest in the topic, reading research and commentary on bucket strategies and, whenever I get the chance, asking financial advisers for their take. There are plenty of different takes.

What is the bucket strategy trying to achieve?

At its heart, the bucket strategy is an attempt to manage sequencing risk.

Sequencing risk is the risk that poor investment returns occur early in retirement, when you are also drawing down your savings. Withdrawals after market falls can require more assets/units to be sold at depressed prices, leaving less capital invested to participate in a subsequent recovery. The effect can be severe. Sequencing risk can contribute to another problem: longevity risk, the risk of outliving your savings.

Additionally, it can aid in mental accounting, that is having separate buckets of money for separate goals. So, the attraction of the bucket strategy is easy to understand.

So, what is the 'bucket strategy'?

We have now encountered our first problem.

There isn't really one bucket strategy. The term is often used as if everyone is talking about the same thing, but in my conversations with advisers and super funds, I have come across many variations.

The bucket strategy tries to prevent the sale of growth assets, such as shares, when markets are down by drawing initially from a cash or defensive bucket and giving growth assets time to recover.

In an account-based pension, a bucket strategy will generally involve dividing the account into two or more pools of investments. There might be a cash bucket containing money for upcoming pension payments, with another bucket, or several buckets, invested for longer-term growth.

Now to some potential differences. Does the cash bucket form part of your targeted asset allocation? Suppose you have agreed on a strategic asset allocation of 60% growth assets and 40% defensive assets. Where does the cash bucket fit?

Most approaches treat the cash bucket as something separate from that 60/40 allocation. If so, the overall portfolio may end up more defensive than the stated asset allocation suggests, creating a cash drag and reducing returns when markets perform strongly.

Alternatively, the cash bucket can be included within the target asset allocation, with the other investment buckets adjusted down accordingly.

But this raises another issue. As pension payments are progressively drawn from cash, the remaining portfolio can become increasingly more aggressive unless it is regularly rebalanced. We need to know how that cash bucket is being treated.

How many buckets are there? Two, three, four or five? Often, it depends on your investment goals and timeframes, with each potentially having its own identifiable bucket.

How much is in the cash bucket initially? Some target one to four years of pension payments. Others target a percentage of your account balance.

When and how to rebalance? Almost everyone agrees a bucket strategy needs to be rebalanced regularly. But how often?

Is it just when you come in to see your adviser for a review? Is it when your cash bucket gets below a certain dollar or percentage value? Is it based on upcoming pension payments?

By how much should it be topped up and from where? Who decides when it should be rebalanced, and is there any attempt at 'market timing'?

I note that any sell down of growth assets involves an element of market timing, whether it's conscious or not, and whether it's automated or done manually. This may or may not happen at a favourable price.

Two funds, two very different buckets

Interestingly, two smaller super funds both had their own version of a default bucket strategy within their account-based pensions.

One had a cash bucket and a balanced investment option. When the cash balance fell below a predetermined level, some of the balanced investment option was automatically sold to replenish the cash bucket.

The other fund, whilst calling itself a bucket strategy, I thought of as more of a reverse bucket. It had three buckets of pre-determined percentages. Pension payments were initially drawn from the most aggressive bucket. Once that bucket was exhausted, payments were drawn from the next most aggressive bucket, leaving the most conservative investments until last. No rebalancing.

The idea was that, over time, the member would progressively be left with a more conservative portfolio as they aged. It was described as a bucket strategy, but it operated quite differently from what many people would ordinarily think of when talking about buckets. Both super funds are no longer in existence, being taken over by larger funds.

Does a bucket strategy work?

It depends on what you mean by "work".

The bucket strategy is not an asset-allocation free lunch. Dividing investments into separate buckets doesn't, by itself, create additional investment returns or make sequencing risk disappear.

When comparing a bucket approach with a more traditional retirement portfolio, what matters is the underlying asset allocation, withdrawal rules and rebalancing methodology, rather than simply the labels attached to different pools of money.

There is an interesting parallel with Dollar Cost Averaging.

Many investors believe in 'Dollar Cost Averaging' (DCA) to minimise risk when accumulating money. That is, they invest a regular amount at regular intervals. Say, $1,000 at the start of each month, regardless of whether markets are up or down.

Similar principles apply when withdrawing money, but investors tend to abandon DCA in retirement. Admittedly, the advantages and disadvantages are simply reversed. When markets fall you buy more units when accumulating but must sell more units when de-accumulating. However, the reverse is also true in growth markets.

The strongest benefit may be psychological. Humans tend to compartmentalise money. We like knowing that certain money is there for specific purposes. Having a cash bucket is comforting.

A retiree might find considerable reassurance in knowing that their next period of pension payments is sitting safely in cash, regardless of what share markets are doing today. In other words, its advantage is more behavioural than mathematical.

If structuring a retirement portfolio via buckets reduces the retiree fear factor, supports someone to stay invested through difficult markets and helps them sleep better at night, then a bucket strategy may have genuine value.

So, do you want a bucket with that?

Maybe.

Just make sure you know what sort of bucket you're getting, what's inside it, and how it actually works.

Craig Sankey is a Member Education Specialist at UniSuper and financial services writer and presenter. UniSuper is a sponsor of Firstlinks.

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What The Odyssey can teach us about valuation discipline

Schroders

Christopher Nolan's adaptation of *The Odyssey* brought one of the oldest stories in Western literature back to the spotlight. It is a tale packed with gods, monsters and shipwrecks but, for value investors, one episode in particular feels surprisingly familiar.

On his long journey home from the Trojan War, Odysseus is warned about the Sirens. They are creatures whose beautiful song is so irresistible that sailors who hear it are drawn helplessly towards them, steering their ships onto the rocks.

Odysseus wants to hear the song but knows he cannot trust himself to resist it. So, he comes up with a plan. His crew block their ears with wax, while he orders them to tie him tightly to the mast of the ship. Crucially, he tells them that if he later begs to be released, they should ignore him and, if necessary, bind him even tighter.

The Sirens of the stock market

The stock market is full of siren songs. Every investment cycle produces wonderful stories about the future: revolutionary new technologies, enormous untapped markets, exceptional businesses, structural growth and seemingly insurmountable competitive advantages.

Importantly, those stories are not necessarily *wrong*. Indeed, that is what makes them so powerful and persuasive. The most dangerous investment narratives are rarely complete fantasies. More often, they begin with a kernel of truth – a great company, an exciting technological breakthrough or an attractive new growth opportunity – and then gradually morph into the idea that almost *any* price is worth paying just to participate.

Tying ourselves to the mast

Odysseus understood an important lesson about human psychology. Simply knowing something is dangerous doesn't mean we will be able to resist it when temptation arrives. So he didn't rely on his willpower alone. Instead, he imposed a constraint on himself *in advance.*

That timing matters. The constraint is established *before* the temptation arrives. Because once the Sirens are singing, our judgement can no longer be assumed to be impartial.

At its heart, value investing is a similar form of pre-commitment. Rather than beginning with an exciting vision of the future and working backwards to justify what we might pay for it, we "tie ourselves to the mast" by insisting that an investment first offers a margin of safety. In simple terms, that means we want a prospective investment to look justified by something tangible and demonstrable – proven earnings power, proven cash flows or the hard tangible assets that sit on a company's balance sheet.

That doesn't mean the future is irrelevant. It always matters enormously. But it does mean we try to avoid making our investment returns solely dependent on a speculative – and often highly optimistic – version of the future coming to pass.

As Ben Graham put it: "*The function of the margin of safety is, in essence, that of rendering unnecessary an accurate view of the future."*

Tighten the ropes

The trouble is, tying yourself to the mast isn't always a barrel of laughs.

When highly valued growth companies are delivering spectacular returns, it can be genuinely painful to miss out. And at that point, there will always be reasons why traditional valuation discipline is said to matter less than it used to.

In the late 1990s, it was the internet. In other periods, it's been emerging market growth or ultra-low interest rates. Today, artificial intelligence provides another powerful narrative for why investors should loosen the valuation ropes to make sure they "have some exposure".

The headlines and the details change, but the behavioural temptation is always the same. And the longer expensive assets outperform, the greater the pressure to loosen those ropes.

It rarely happens all at once. First, paying a little more for dependable growth feels like a sensible compromise. Then paying substantially more seems reasonable given how exceptional the opportunity appears. Eventually, questioning whether the price paid matters at all can begin to sound hopelessly old-fashioned.

This is why Odysseus specifically instructed his crew that when he begged to be untied, they should bind him even more tightly. For investors, there is something useful in that image. The moment valuation discipline feels most frustrating is often the moment when it really matters.

Hearing the song

There is an important distinction here, however. Odysseus does not block his own ears like the rest of his crew. He *does* hear the song of the Sirens.

Likewise, value investing does not require us to ignore the forces of technological change or bury our heads in the sand when it comes to reasons why the future may look different from the past. Indeed, we probably spend a disproportionate amount of time considering how structural changes could negatively affect some of the deeply discounted companies that come onto our radar.

We don't want to close our ears or live in denial of disruptive change. But we do want to avoid being lured onto the rocks by the siren call of "this time it's different".

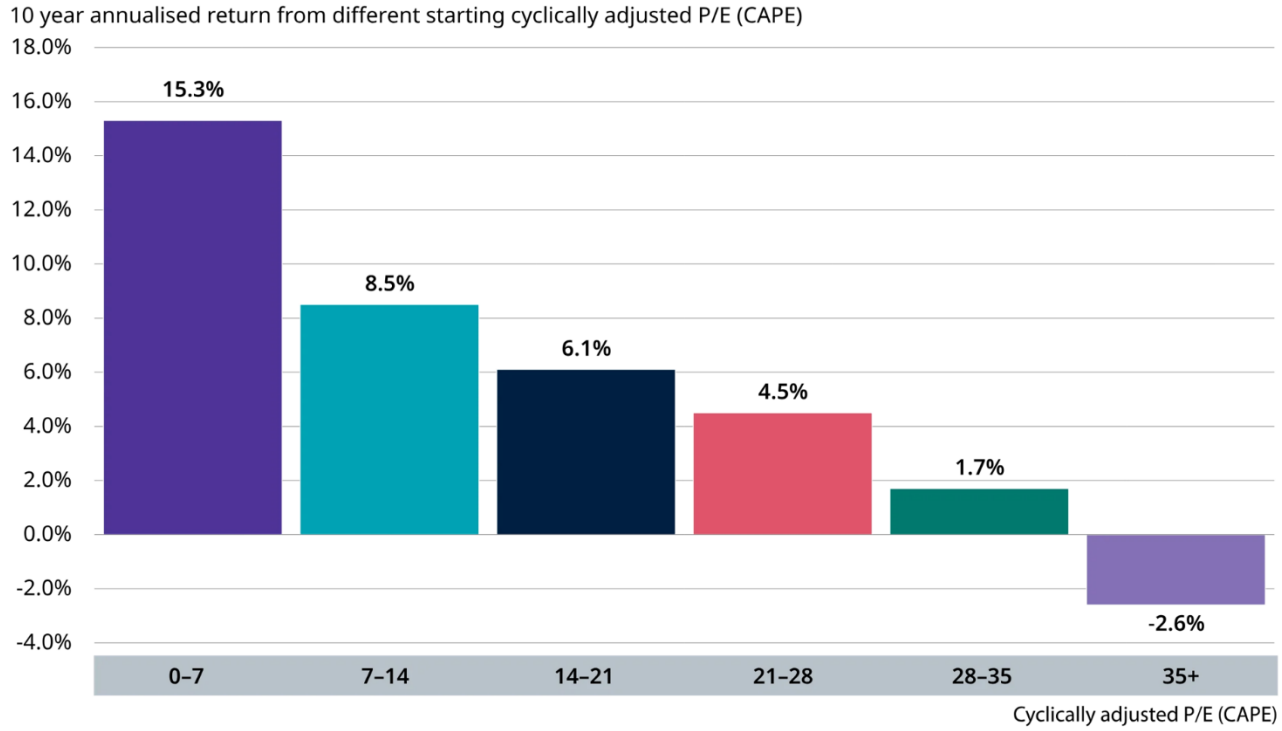
Staying the course

Markets will never stop producing siren songs. There will always be a compelling reason why this particular company, this particular technology or this particular moment in history is sufficiently exceptional to defy the odds and rewrite the rules of investing.

Knowing that is the case, it is critical that we stay the course.

Valuation discipline is the rope around our mast. And – as supported by Figure 1 below – history suggests that when the siren song is most tempting, that is usually the worst possible moment to untie it.

Figure 1: In the long run, the price you pay for something really does matter



Past performance is not a guide to the future and may not be repeated.
Source: Stock market data used in "Irrational Exuberance" Princeton University Press, 2025 updated, Robert J. Shiller. Based on US equity market since 1871.

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Does market concentration really mean more risk for investors?

Jan-Carl Plagge PhD

The recent rise in US equity market concentration has left investors asking whether too much of the market's fortunes now depend on too few stocks.

A commonly used measure of concentration approximates how many companies a market "effectively" contains by expressing its concentration as the equivalent number of equally weighted companies. In the US, the "effective number of companies" fell from around 200 in mid-2006 to around 50 by the end of 2025.[1]

But there's an important question behind those numbers: does a more concentrated market necessarily mean greater risk or lower returns ahead? Vanguard's research suggests the answer isn't so straightforward.

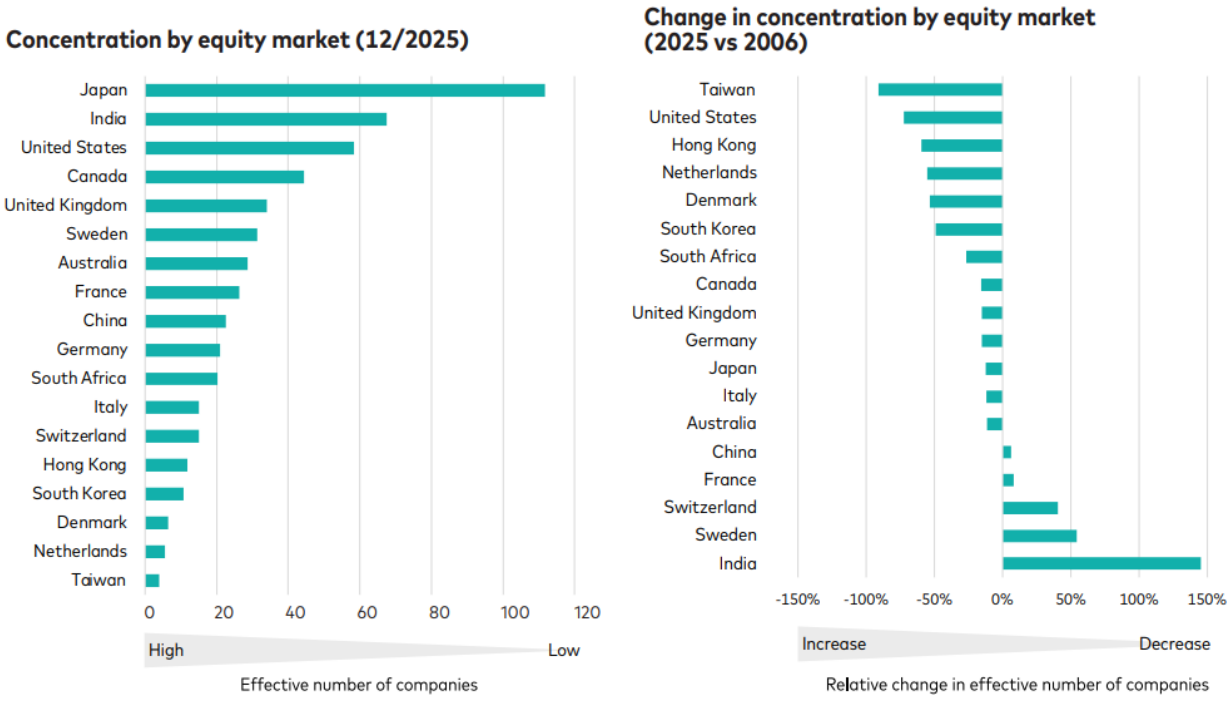
Concentration isn't happening everywhere

But before we get into this, let's first have a look across equity markets around the world.

The US may be getting more concentrated, albeit not to an extent that is unprecedented, but that doesn't mean the same thing is happening around the world.

Vanguard looked at 18 developed and emerging share markets and found very different experiences. While concentration has increased in the US, India has become considerably less concentrated in recent years. Australia, meanwhile, has remained relatively stable.

Figure 1. Equity market concentration across markets and over time



Notes: Past performance is not a guarantee of future returns. The LHS chart displays the effective number of companies per equity market as of 31 Dec. 2025. The effective number of companies is calculated as the reciprocal of the sum of squared constituent weights in each market's MSCI IMI Index. The RHS chart displays the relative change in the effective number of companies from 30 Jun. 2006 to 31 Dec. 2025.
Source: Vanguard calculations based on data from MSCI and FactSet.

Note: The example is illustrative only and is based on the factors stated. It should not be taken to contain or provide an estimate of future market performance.

That's an important bit of context. Market concentration isn't one global trend moving in the same direction.

What's more, next to *changes* in concentration, it is important to also look at *levels* of concentration. And here, the US is far from being an outlier. In fact, most equity markets, including the Australian market, are more concentrated than the US market is.[2]

A concentrated market isn't a crystal ball

But perhaps the more interesting question is whether knowing how concentrated a market is helps us anticipate its future performance.

Vanguard tested this by looking at concentration and what happened to markets in the following year. Researchers considered returns, volatility, risk-adjusted returns and whether markets experienced falls of at least 10% or 20%.

The verdict? There wasn't a clear pattern simply linking concentration with what happened next. The analysis didn't detect a relationship between concentration and returns, risk-adjusted returns or large market falls. It did, however, find a positive relationship with volatility, but the effect was relatively small.[3]

But why is the link not much more straightforward? After all, we know that diversifying investments across companies is an effective way to reduce company-specific risk. The more diversified a portfolio is, the less it depends on what happens to any one company.

The answer lies in the characteristics of companies themselves. Vanguard research shows that the largest companies – those that account for a market being concentrated – tend to be much less risky investments than the smallest companies in a market.[4] This is, in part, driven by the fact that these large companies are not homogeneous blocks but have highly diversified lines of business.[5]

So should investors ignore market concentration altogether?

Market concentration is still worth understanding. And building well-diversified portfolios is still a key contributor to long-term investment success.

What's more, for investors who still feel uncomfortable with any level of concentration in a given market, there are investment options available such as funds that equal-weight rather than market-cap-weight all of their components. But these investment options come with costs such as active risk and higher turnover. Hence, investors may end up exchanging one risk for another.

Looking beyond the headlines

When a handful of companies dominate a market, the numbers can look dramatic. But they don't tell investors what will happen next. A market-cap-weighted index adjusts with those changes rather than requiring investors to predict the winners in advance.

For investors, the better response to concentration may therefore be to step back from the individual index and consider the whole portfolio.

Diversification across Australian and international equities, developed and emerging markets, large and small companies, and defensive assets such as bonds can reduce dependence on any single company, sector or market.

Market concentration deserves attention. But concentration alone isn't a forecast and avoiding it isn't a free lunch.

[1] Ning Yan, CFA and Jan-Carl Plagge, Ph.D, On the link between concentration in stock index portfolios and returns: Separating myth from reality, Vanguard, 2026.
[2] The higher concentration levels of other markets can also be a by-product of many of these markets being more narrow.
[3] Ning Yan, CFA and Jan-Carl Plagge, Ph.D, On the link between concentration in stock index portfolios and returns: Separating myth from reality, Vanguard, 2026.
[4] Ning Yan, CFA and Jan-Carl Plagge, Ph.D, On the link between concentration in stock index portfolios and returns: Separating myth from reality, Vanguard, 2026.
[5] Magnificent Seven: More diverse than they may appear | Vanguard Australia FAS

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Retirement in reality - 8 months in

Dr Joanne Earl

For those of you who have not connected, I retired eight months ago from being a full-time academic after researching retirement planning for nearly 20 years. Now I am focusing on implementing my findings: for myself, for individuals and for organisations. As I promised when I retired, I am providing a month-by-month account of my findings from the other side. This month I explore health, combining health with social connections, and the significance of identity.

Health

Thank you for your many useful suggestions about ways to move forward. I can tell you that progress has been noted and I am gaining momentum, but I have to admit I hit a tough spot and questioned if it was all worth it.

I held the course and I've turned a corner. I mentioned in my last post that I have employed a team of professionals to help out and some people wrote asking whether it was necessary for them. I can't comment without knowing individual circumstances, but I can say that in my case this was the result of having neglected health for far too long.

It's also true that some of these professionals (e.g. dietitian, exercise physiologist) are there to put me on the right track in the short-term, not an ongoing commitment. There is a lot of advice online and I needed to hear it from the right professionals rather than evaluating several YouTube claims. I also did not have the inclination to read medical journals or published research myself.

Finding activities that integrate health and social

I have experimented with many activities over the past eight months. For me, there is a definite preference for health activities that overlap with social activities. This has been a great way of increasing my social network as well as improving my health.

Some of the places I tried completely missed that opportunity. Very large classes, no conversations with anyone else in the room, people shoving and pushing their way out of change rooms, and a constant rotation of facilitators. I understand that not everyone attends these activities to make friends but with loneliness at epidemic levels across different age groups couldn't we at least try to make the most of having strangers in the room together to build new connections?

The groups I've joined are a great balance of health and social. My learning here: it's not only what you do in retirement to keep well that matters, but also who you do it with (the latter as important as the former).

Identity

I hear lots of conversations from influencers and colleagues about the importance of identity and purpose. I don't think it's as simple as everyone having a "Who am I?" moment in retirement. Some people already know they are not their jobs – many enter retirement as willing participants. Some with hard-won qualifications or embedded work identities might find it harder to integrate new connections and activities but not all.

Is it realistic to expect everyone to find a new identity that lasts for 30 years? Perhaps the transition from work to retirement might be seen as the warm-up for what comes next. We do not retire to a single identity but evolve over time to other identities. Being locked into an identity as a 'retiree' is no less a cage than 'worker', 'engineer', 'accountant', 'lawyer', 'business owner' etc. Does ownership of the title 'retiree' lock us into a single non-descript identity?

I've also been reflecting about whether we hold on to identity for ourselves or valued others. We see the same things earlier in careers when university students pursue paths to satisfy parents. A study by my colleagues applied a model called the Theory of Planned Behaviour to retirement planning and reported that: "personal attitudes, sense of control, social influence, and stable traits have a significant influence on the extent to which late-career workers are engaged in retirement planning" (Griffin, Loe and Hesketh, 2012, p.877). Later research (Kim, Ekerdt and Baker, 2025) points to the importance of social influence but more so for women than for men.

So if retirement planning is influenced by valued others might it also be possible that we worry about identity not just for ourselves but significant others who have a vicarious ownership of these identities?

Email me if you would like copies of the references mentioned here: joanne@retirementdr.com.au. Homework this week: Without giving it any thought write down your spontaneous top ten answers to the question: "Who am I?" (not me; I mean you). Where does work fit into the list?

An extended version of the above and reflections on months 1 to 7 can be found here: Joanne Earl | LinkedIn.

Joanne Earl is a Psychologist and Honorary Professor of Psychology and Retirement Planning. You can read more about Joanne's retirement journey via LinkedIn or visit her website: www.retirementdr.com.au.

Stagnation might be OK at this point

Dion Hershan

We have frequently commented on the lack of ambition in Australia, the poor productivity, the flawed policy settings and the slow creep into mediocrity. In our view, nothing on that front has changed. If anything, it has become even more entrenched.

Notwithstanding those somewhat 'sanguine' thoughts, it's worth noting that the composition of the Australian equity market (ASX 200) actually maps very differently to that of the domestic economy.

Conveniently (and this won't always be the case) the sectors under the greatest amount of pressure in the economy are under-represented on the stock market.

By way of example:

The consumer (under-represented) – the Australian consumer is under extreme pressure (i.e. high interest rates, inflation, energy prices, falling property prices, miserable confidence) and it likely already feels like a 'consumer recession' for many. The sector is 52% of GDP, but represents less than 10% of the ASX 200 (by market capitalisation). In fact, BHP is more important to the ASX than all consumer-related stocks put together. Myer and David Jones might attract a lot of headlines, but neither company sits inside the ASX 200.

Housing construction (under-represented) – the sector is consistently between 3-6% of GDP and heading into a policy-induced slump, but conveniently the building materials sector is less than 1% of the ASX 200. The transmission of a weak housing market (i.e. falling prices and volumes) is pretty limited through the ASX 200 outside of what it means for Consumer stocks. It will crimp Bank credit growth (we still believe mortgage credit quality is robust), but is unlikely to create a banking crisis.

Offshore education and tourism (under-represented) – Australia's #2 and #3 exports are under severe pressure and that will be further compounded by migration cuts (particularly in university education), but these two sectors are barely present on the ASX (<1%).

Mining and energy (over-represented) – while clearly important to the economy at 13% of GDP, these sectors are twice as important to the market at almost 30% of the ASX 200. We believe the general outlook is promising, with demand resilient, supply constrained and capex inflation/delays favouring incumbent low-cost producers (which Australia is spoilt with).

Financial services (over-represented) – the outlook for Australian banks is uninspiring but not dangerous, meanwhile the insurers look completely boring. They currently represent 30% of the ASX 200 vs. <10% of the economy which could prove to be a distinct advantage.

Australian companies with material offshore earnings (over-represented) – these businesses clearly don't feature in GDP numbers but are north of 20% of the ASX 200 (e.g. ResMed, CSL, QBE Insurance). Overall, they have promising prospects and the potential to outgrow Australia's mediocre short-term prospects.

Data centres and AI (not relevant) – clearly a raging debate has emerged around the sector, with politicians oscillating between its virtues and evils (sometimes even on the same day). In any event, even if you round up, its directly listed cohort represents less than 1% of the ASX 200.

In a world where wars rage, French bond yields are literally melting up, 'revolutionary' business models like neoclouds look broken and real fragility has crept into AI stocks (the world's most crowded trade), Australian equities could look like a port in a storm. It's clearly a tactical rather than structural argument, but one which could carry some weight amongst global asset allocators in the period ahead. Being underweight Australia has been consensus – it's easy and somewhat obvious – but that might now change.

The key driver of the ASX's underperformance versus global markets has been its under-representation in IT hardware/AI and earnings stagnation. However, these factors may actually be a catalyst for

outperformance if the stress we are currently observing persists or accelerates. It comes as the ASX 200 is approaching fair value and realistic F27 earnings expectations are in place (refer below).

Chart 1: The ASX 200 is approaching fair value

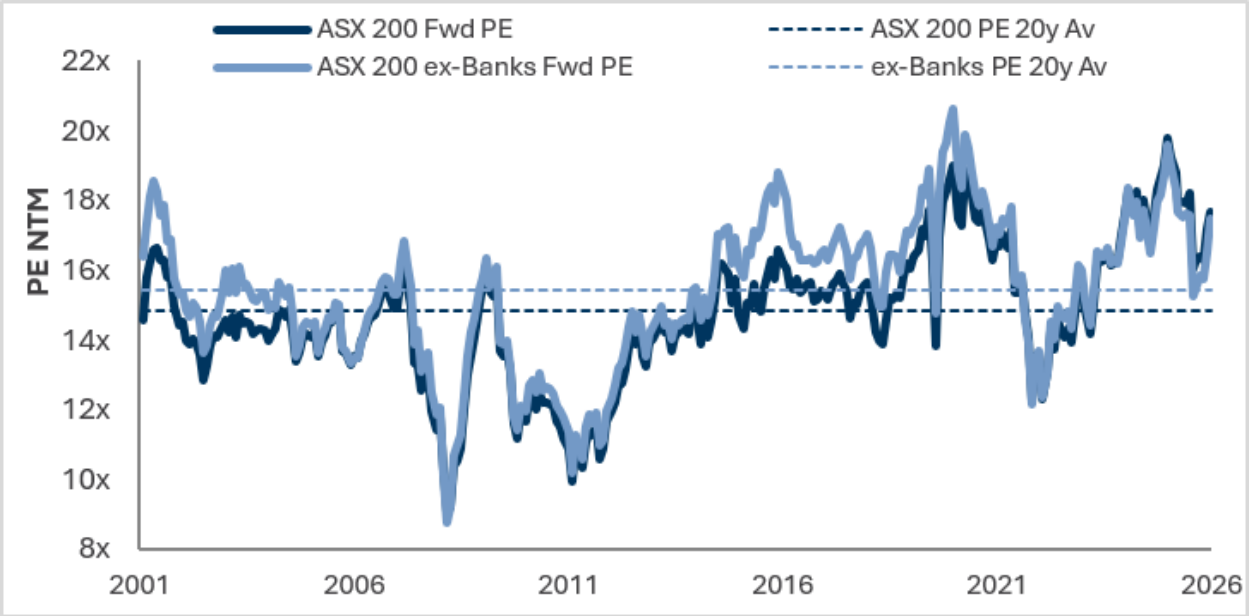


Table 1: Realistic F27 earnings expectations are in place

Sector	2026 (actual)	EPS Growth (%) 2027 (cons.)	2028 (cons.)
ASX 200	12.2	6.0	6.4
Health Care (6.6%/ASX 200 mkt cap)	1	(2)	10
Staples (7.0%)	5	7	10
Utilities (2.5%)	(1)	(7)	(16)
Telcos (2.2%)	8	13	9
Info. Tech (2.3%)	5	13	53
Media (1.1%)	18	8	16
Banks (22.4%)	5	5	3
REITs (5.4%)	(2)	11	8
Mining (20.0%)	34	0	(1)
Energy (5.8%)	2	11	(8)
Gold (6.0%)	51	15	34
Steel (0.8%)	80	25	(1)

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